



COUNCIL AGENDA: 06-29-04  
ITEM:

# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Jim McBride

**SUBJECT:** SEE BELOW

**DATE:** June 22, 2004

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Approved

Date

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**COUNCIL DISTRICT:** City-wide

**SUBJECT: FIRST AMENDMENT TO LOAN AGREEMENT WITH THE  
MEXICAN HERITAGE PLAZA TO REVISE LOAN REPAYMENT  
SCHEDULE AND REDUCE LOAN PAYMENT IN EXCHANGE  
FOR USE OF SPACE FOR A NEIGHBORHOOD DEVELOPMENT  
CENTER**

## **REASON FOR ADDENDUM**

It was not certain at the time agenda items were due that there would be agreement between the City and Mexican Heritage Corporation to move forward with the agreement detailing the use of space at the Mexican Heritage Plaza for a Neighborhood Development Center.

## **RECOMMENDATION**

Adoption of a resolution authorizing the City Manager to

- 1) negotiate and execute a First Amendment to Loan Agreement and Promissory Note with the Mexican Heritage Corporation (MHC) to allow the City to use certain space at the Mexican Heritage Plaza for a Neighborhood Development Center, and
- 2) to reduce the annual loan installment repayment amount of \$50,000 (with the final installment payment of \$100,000) due from MHC to City by \$17,280 for each year the NDC is in residence at the Mexican Heritage Plaza, and
- 3) amend the Loan Repayment Schedule to defer the due date of MHC's first payment from July 1, 2003 to July 1, 2004, and increasing the final installment payment due July 1, 2014 to \$150,000, subject to the reduction described in subparagraph 2) above.

## **BACKGROUND**

In 1992, the City and the Redevelopment Agency initiated the development of the Mexican Heritage Gardens with the Mexican Heritage Corporation (MHC). This project was intended to be a focal point of celebrating Hispanic culture in San José. Over the next two years, conceptual designs were completed that expanded the garden concept to include an adjacent housing project, theater, community center, art gallery, classrooms and plaza. In addition, two studies were commissioned: 1) the Wolf Organization, Inc., developed an Operating Plan and Organizational Assessment of the proposed facility, and 2) AMR Planning and Research prepared a Facility Use Analysis. By 1995, the findings of both studies clearly presented the numerous challenges that would have to be addressed regarding the facility and the operating agency, MHC.

In March 1996, the City entered into an Operation and Maintenance Agreement with MHC to stipulate the responsibilities of the various parties. The agreement included an ongoing operating subsidy that would grow to \$413,783 by FY 1999-2000.

Since the opening of the facility, the MHC has faced the challenges of operating a large facility with a staff that has been reduced to a size that could be supported by MHC. As the Department of Parks, Recreation and Neighborhood Services (PRNS) manages Neighborhood Development Centers (NDC) in leased spaces, it was deemed to be of mutual benefit for MHC and PRNS to collaborate on locating a NDC at the Mexican Heritage Plaza site, including some PRNS staff resources. Discussions between PRNS and MHC have occurred and both parties are agreeable to the use of space at the MHP for the purpose of a NDC.

In July 2000, the City and MHC entered into a loan agreement pursuant to which the City loaned \$650,000 to MHC at no interest. Repayment of the loan was to be paid either in installments of \$50,000 per year commencing on July 1, 2003, with a final installment in the amount of \$100,000 due on July 1, 2014, or at the City's option, by an equivalent reduction in the annual subsidy under the Operation and Maintenance Agreement. As of this date, MHC has not made the initial payment for the current FY 2003-04 and the City did not reduce the annual subsidy due to the request by MHC to have the loan forgiven resulting in the discussions regarding the options that could be explored. The MHC has expressed how difficult their fundraising efforts are with an outstanding loan to the City in their financial records. While the loan payment has not been made, MHC's budget does identify available funds sufficient to make a loan payment to the City of \$50,000 for the current FY 2003-04. The MHC has requested based on the NDC discussion to have the loan restructured so that MHC may receive credit against the outstanding balance of the loan in an amount equal to the value of the rent. The Office of Cultural Affairs proposes that the \$17,280 rental credit for fiscal year 2004-2005 (and for each year thereafter), be applied as in effect, a rental payment by the City in advance. This would allow MHC to benefit from the reduction when it makes its July 1, 2004 loan payment to the City. If the NDC

does not occupy the facility for the entire fiscal year during the term of the loan agreement, the MHC shall be required to repay the City a proportional amount of the prepaid "rental" credit.

It is also recommended that the initial loan repayment begin deferred for one year from the original due date of July 1, 2003, to July 1, 2004, to acknowledge the current situation and collaborative efforts in developing the NDC concept.

### **ANALYSIS**

The public will benefit from the collaboration between the City and MHC as the space will be used as a satellite site for training and community development activities offered through the City's Neighborhood Development Center (NDC) and the Strong Neighborhoods Initiative. At present, the City does not have a NDC satellite site on the east side of San Jose and the SNI staff are located in a facility with limited public access. The use of the MHC facility will afford the opportunity to serve new constituencies and to relocate SNI staff into a facility with greater accessibility and parking.

### **PUBLIC OUTREACH**

This recommendation has been coordinated with representatives of the MHC.

### **COORDINATION**

This report has been coordinated with the Departments of Conventions, Arts and Entertainment, PRNS and the Attorney's Office.

### **FISCAL IMPACT**

The City will reduce the amount that MHC is required to pay the City as part of the \$650,000 loan repayment by an amount equal to the value that PRNS would provide should it pay to lease the space. The parties believe that a reasonable value for City's use of space at the MHP for the purpose of a NDC amounts to \$1,440 a month with an annual rental of \$17,280. The loan agreement will detail a payment schedule that will be determined by taking the loan repayment amount due to City of \$50,000 per year reduced by the value of the rental of the space for the NDC that is \$17,280 per year. This adjustment in the Loan Repayment Schedule will result in loan repayments to the City of \$32,720 for FY 2004-05 through FY 2013-14, with a final payment in FY 2014-15 of \$98,160, provided the NDC is still actively using the space. Should the NDC not be residence at the MHP, then the loan repayment would revert to \$50,000 per year for FY 2004-05 through FY 2013-14, with a final payment in FY 2014-15 of \$150,000. In

HONORABLE MAYOR AND CITY COUNCIL

June 22, 2004

**Subject: First Amendment to Loan Agreement with the Mexican Heritage**

Page 4

addition, the amendment to the Loan Agreement will detail the shared responsibilities including the use of equipment, the space to be used by PRNS, schedule for PRNS payments and other specifics of this collaboration.

In the event of termination of the use of MHP for a NDC, then the First Amendment to the Loan Agreement will reflect that the remaining balance of the loan would be due and payable by MHC to the City per the schedule without the credit for the NDC use.

**CEQA**

Not a Project.

JIM McBRIDE

Acting Director, Conventions, Arts and Entertainment